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RECOMMENDATIONS ON THE IMPROVEMENT OF INTERNATIONAL SUPPORT FOR ECDC PROGRAMMES, PROJECTS AND NEW INITIATIVES

Preliminary suggestions regarding the improvement of the scope and effectiveness of subregional, regional and interregional components of development assistance programmes of the donor community

Report by the UNCTAD secretariat

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INTRODUCTION

1. At its first meeting held on 11 to 15 January 1993, the Standing Committee on Economic Cooperation among Developing Countries (ECDC) decided to ... "make the necessary arrangements for a pragmatic policy dialogue among the donor community, subregional, regional and interregional groupings as well as participants in ECDC programmes and projects with a view, in particular, to mobilizing support for designing and implementing regional initiatives, interregional activities and networking of integration and cooperation schemes". The present Intergovernmental Group of Experts (IGGE) has been organized in pursuance of that decision to hold consultations and report to the next session of the Standing Committee on how assistance to ECDC programmes could be improved.

2. Among developing countries, there is a marked upsurge of interest in ECDC as reflected in the efforts being made to strengthen, streamline and reorient existing subregional and regional economic cooperation and integration schemes and to establish new schemes where none existed before. At the same time these cooperation and integration efforts of developing countries are increasingly attracting the attention and active support of the donor community, reflecting recent trends among developed countries themselves to adopt regional economic cooperation and integration as strategies for trade expansion and economic growth.

3. In section I of this paper examples and political manifestations from donor countries, multilateral institutions and recipients are reviewed. The new thinking on ECDC support is set against some important trends in the international scene. Three of these trends are highlighted, namely, policy reforms in developing countries, the increased emphasis on project-specific ECDC, and the rise of trading blocs involving both developed and developing countries. In section II, some institutional problems concerning the extension of support to ECDC are reviewed in the context of action that might be taken. Section III concludes the paper by offering suggestion on modalities for dialogue between donors and ECDC entities together with specific suggestions on follow-up action.

I. NEW THINKING ON SUPPORT TO ECDC AND UNDERLYING TRENDS

A. Examples and policy manifestations

4. The support which developed countries give to ECDC takes a variety of forms ranging from policy dialogues at the level of OECD/DAC to practical support at both the multilateral and bilateral levels, to specific ECDC programmes and projects or specific cooperation and integration groupings of developing countries. A notable example of the former is the September 1992 OECD/DAC policy meeting, which provided the occasion for the donor community to review its development assistance policy and to examine how best it could support regional economic cooperation and integration among developing countries. The result of the meeting confirmed the member countries' new approach to the economic integration initiatives of the developing countries and their readiness to incorporate aspects of regional cooperation and integration in their development assistance programmes. The meeting decided

also to explore the possibilities of encouraging the rationalization and strengthening of regional institutions and to respond favourably to the efforts of developing countries to work together and to help identify areas particularly suited to regional approaches.

5. At the bilateral level, an increasing number of developed countries and their institutions are taking steps of both an organizational and procedural kind in order to be better able to respond to the ECDC-related aspects of their development assistance programmes and, specifically, to encourage and support regional cooperation initiatives. Some have established a special "window" or a special regional fund to provide development finance for multi-country projects and programmes. Others have taken the policy decision to concentrate their development assistance in a limited number of regions in order to maximize its impact. 1/

6. The internal structure as well as the working procedures of the main donor countries and institutions reflect this interest in regional cooperation and integration. A notable example is the European Union which has a long history of providing financial and technical cooperation support to regional cooperation and integration dating back to the Second Yaoundé Convention of 1969. Its own success in European integration and the experiences it has gained in that process would probably explain the important role it has been prepared to play, among the donor community, in supporting regional economic cooperation and integration. For example, at meetings which it organized in October 1991 and February 1992, in connection with the Special Programme of Assistance (SPA) to the indebted sub-Saharan African countries, the Union (at the time the EEC) called for further studies on possible approaches to incorporate a regional dimension into structural adjustment programmes, suggesting that it may play a key role in development assistance to regional groupings and intergovernmental organizations in sub-Saharan Africa in the next decade. In its report, "Regional integration and structural adjustment", the Union identified a number of fields where regional integration and structural adjustment could reinforce each other, such as coordination of macroeconomic and sectoral policies among neighbouring countries. 2/

7. Among the multilateral organizations, the World Bank, which had previously paid limited attention to regional integration, has in the recent past been adopting an unambiguous supportive role as manifested in several of its activities in Africa in particular; and UNDP has made support to regional economic cooperation a central feature of its programming cycles. Similar approaches are evident in the programmes of all the major bilateral donors.

8. Yet another manifestation of the new attitude in developed countries to the ECDC efforts of developing countries can be seen in the growing popularity of Development Partner Dialogue relationships, working through consultative conferences, round tables and other mechanisms. ASEAN, SADC and the South Pacific Forum hold annual consultative meetings with interested development partners. ECOWAS held its first "donor conference" in 1992 and PTA is organizing one in 1994.

9. On the part of recipients, many economic cooperation and integration groupings have taken new initiatives either to improve the existing machinery for consultation with donors or to establish new modalities for conducting

their relationships with them. 3/ Thus, following a mission to Europe and North America to generate interest in its cooperation programmes, ECOWAS inaugurated in 1992 the organization of donor conferences to supplement traditional bilateral cooperation agreements. In the Organization of the Kagera Basin (OKB) the mobilization of external support was achieved through round tables and bilateral consultations in 1979 and 1982 and a third round table is planned for 1994. ASEAN, SADC and the South Pacific Forum continue to organize annual consultative meetings with their interested development partners. These well-attended meetings have provided increased resources by interested donors to the organizations in support of some aspects of their ECDC programmes and projects and have helped to improve and mobilize international support for the organizations concerned.

10. Moreover, a growing number of the ECDC participants are establishing operational units or departments within their secretariats to handle relationships with cooperating developed countries and donor agencies. This is the case for example of ALADI's External Technical Cooperation Department, PTA's Technical Cooperation and Aid Coordination Unit, and the Andean Group's Technical Cooperation Unit. The South Pacific Forum has decentralized this process further by creating an operational unit, the ACP/EC Unit, which is solely responsible for overseeing the development and implementation of the Lomé IV Pacific regional programme.

B. Other global trends enhancing regional cooperation

1. Policy reforms in various countries

11. Towards the end of the 1980s and the beginning of the 1990s, there were major changes of both a political and an economic nature on the international scene, in the wake of which major reforms were undertaken by a number of developing countries. These reforms have, inter alia, two outstanding characteristics: they are liberal and market-oriented and open to the global economy. The switch from a strong emphasis on inward-looking import substitution policies to more openness gave new impetus to ECDC, because cooperation with regional/subregional partners came to be seen as a step towards fuller participation in the global economy as it facilitates the acquisition of higher skills and the attainment of the production scale necessary to compete internationally. Similarly, the liberal market-based orientation opened up the possibility of enterprise cooperation and these two trends have become mutually reinforcing. Most developing countries, members of integration groupings, for example, have established very tight timetables for market integration which generally envisage the full attainment of customs union or common market status by or around the year 2000. Generally speaking, these market integration efforts, in contrast to the past, are being developed as much as possible within the context of an outward-oriented approach and consistent with long-term integration objectives. Some of the integration groupings such as UDEAC and the Andean Group are considering the creation of common external tariffs that are not excessively protective but just sufficient to ensure that regional producers continue to have some competitive advantage regarding imports.

12. The wave of economic reforms in developing countries also touches upon the financial sector, such as the liberalization of exchange restrictions and movements towards greater currency convertibility. Such liberalization improves the scope for cross-border investment, the development of capital markets and financial institutions. It also enhances the prospects for establishment or improvement of regional banking, regional venture and equity funds, regional stock markets and investment funds through a broader spread of risks and investment portfolios arising from the wider financially liberalized regional area. Thus, some regional/subregional groupings such as PTA and CARICOM are actively considering establishing such mechanisms.

2. Project-specific ECDC

13. Trade liberalization is no longer the dominant feature of economic cooperation and integration, whose scope now also embraces other fields such as monetary and financial cooperation, cross-border physical infrastructure networks, production capacities, culture, and environment, among others. Moreover, cooperation in all of these fields is increasingly based on a careful selection of specific projects where prospects for joint action appear promising. At the same time greater flexibility is being introduced into cooperative arrangements that make it possible for two or more countries to proceed with a venture even when all the members of a grouping are unable to participate at the same time and speed. The project approach to cooperation is also the operating modality of such project-specific groupings as the Lake Chad Basin Commission and OKB, which were set up to coordinate cooperation among their member States in specific sub-sectors and to promote the implementation of regional projects that benefit two or more of the member States of the particular grouping.

3. Emergence of new trading blocs

14. Another global phenomenon with implications for ECDC is the emergence of trading blocs centred around the main global economic centres such as the United States and the European Union with other growth poles under consideration. One transformation ensuing from this trend is the movement towards more flexible approaches to economic integration by freeing it from geographical constraints. "Mixed groupings" have been formed, involving integration arrangements between developed and developing countries. The outstanding examples are the North American Free Trade Association (NAFTA) between Canada, United States and Mexico; and Asia-Pacific Economic Cooperation Forum (APEC) involving Australia, Brunei Darussalam, Canada, China, Taiwan Province of China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Republic of Korea, Singapore, Thailand and United States. Other examples include ongoing discussion for a possible free trade agreement between the European Union and the Arab Maghreb Union (UMA), and between the European Union and the Cooperation Council for the Arab States of the Gulf (GCC). Similar growth poles are also being formed among developing countries themselves. For instance, the formation of a number of "growth triangles" is under discussion between several countries members of ASEAN to foster cross-border investment, development of industries and promotion of trade.

II. ISSUES AND PROBLEMS OF ECDC SUPPORT

A. Distinguishing characteristics of ECDC support: a rationale

15. The greatest part of aid flows have been directed towards specific country recipients. In fact, only about 1 per cent of the aid flows of recent years can be considered as regional or as having significant regional components. 4/ While section I has explained the new thinking regarding regional ECDC support and the trends encouraging such new thinking, the question arises as to whether there are inherent characteristics to ECDC support which not only provide its rationale but differentiate it from bilateral support.

16. At the head of the list, one can suggest support for regional and subregional "public goods". For example, environmental problems; problems of migration; the incidence of labour displacements, problems of disease control and control of natural disasters. These furnish a well-found justification and rationale for extending support on a regional or subregional basis since both the incidence of these problems and the requirements for dealing with them cannot be confined to one country, nor can one country limit its own exposure to them.

17. Another justification is to be found in undertakings that transcend the borders of one country. Cases in point are transportation and communication networks, joint venture projects, projects of regional or subregional production collaboration among members of an integration grouping or a cooperative arrangement such as food security projects in Africa.

18. It is not uncommon for regional/subregional initiatives to founder on account of the lack of indigenous financial resources and expertise. Information received from developing countries and their groupings reveal several examples of projects for which external support was sought and which might not have been carried out without such support. On the whole, regional activities are typically more complex to operate and require longer-term financial commitments than country projects. Assistance by developed donors and multilateral institutions is likely to involve specialized knowledge often scarce in the recipient countries. Another consideration revolves around the empirical observation that in many donor countries there are training facilities for encouraging and supporting regional/subregional cooperation. While this is not exclusive to ECDC support, it does none the less provide a justification for an ECDC-oriented aid component in development assistance programmes. In this context, the donor countries in cognizance of the dearth of institutional capacity in cooperation groupings have shown a marked interest in giving assistance for institutional capacity-building to groupings.

19. Regional/subregional cooperation finds inherent justification in the scale viability it brings about. Many production and distribution facilities would not be viable in small countries and for small markets. Moreover, economies of scale and in particular significant gains from large-scale production, especially in manufactures, have accrued historically only after attaining a certain size. Comparative growth experience, and in particular

the work of S. Kuznets on United States growth and production, not only documents this aspect but imputes a considerable part of growth to increased returns to scale. Hence, it would be natural that many small developing countries would seek gains associated with a regional scale in many suitable undertakings, and in consequence would seek external support from donors for such undertakings. Conversely, as development-interested partners, donors would be normally inclined towards considering such undertakings. It is propitious in this respect that the new emphasis placed on project-oriented ECDC, i.e. cooperation on specific projects, would lend feasibility and operationality to external support for large-scale regional undertakings.

20. Some concrete sectoral examples confirming the above criteria are given below:

(a) Broad sectoral cooperation and specific schemes in the productive sectors of industry and agriculture, in trade promotion and in transport and communications;

(b) Enterprise development and the promotion of private sector and public-private sector linkages as well as various types of networking arrangements;

(c) Cooperation in the provision of certain public goods and services that can be provided more efficiently on a joint basis (education, research, infrastructure and environment);

(d) Trade cooperation projects of various types ranging from liberal trade zones to custom unions to common markets; 5/

(e) Other types of cooperation that do not necessarily require formal regional institutions or explicit broad policy coordination as is the case, for example, in common negotiations in pursuit of a specific common interest.

B. Some institutional considerations

21. There are a number of perceived problems attaching to regional support programmes that do not exist in respect of bilateral programmes. These perceived problems may sometimes have the effect of making bilateral programmes more attractive than regional programmes not only to the donors but often to the recipients as well. From the viewpoint of donors, one of these problems relates to the seeming lack of credibility of certain regional arrangements reflected in the reluctance of participating governments to honour regional commitments voluntarily entered into; this is in respect not only of regional decisions taken but also of contributions to regional institutions. This lack of credibility raises questions for donors concerning, on the one hand, the integrity and long-term sustainability of regional decisions and, on the other, the ability of regional institutions ever to be in a position to generate the level of local resources that would be needed for them to assume full technical and financial responsibility for a regional project or programme once external support for it has come to an end.

22. The developing countries may argue that there continues to be strong political support for ECDC in general and for regional economic cooperation and integration in particular. They can cite the evidence to be seen in the several initiatives that are being taken by them for closer cooperation in a variety of fields. It can be held that whatever failure there has been in translating this interest into action is not so much due to a lack of political will as to the difficult economic situation in which the majority of developing countries have had to exist for much of the past decade and a half when the emphasis has been on crisis management rather than on long-term economic cooperation.

23. Among the problems confronting economic cooperation and integration schemes of developing countries, the problem relating to implementation of decisions is one of those that needs to be given priority attention. The treaties and protocols governing the operations of these schemes often contain well defined agendas for cooperation but provisions for the enforcement of and compliance with agreed undertakings are either non-existent or very weak. In any event, even where enforcement provisions exist, they are hardly ever invoked despite persistent failure to implement decisions. A similar situation exists with respect to dispute settlement procedures. In some schemes formal provisions are made in this regard but they are not always activated.

24. Another problem revolves around the overlapping of the multitude of cooperative groupings, especially in Africa. This creates problems for donors and leads to competition among potential recipients for the limited aid budgets. Some restructuring and streamlining of cooperative groupings is certainly called for, and would help both donors and recipients in clarifying the institutional topography of ECDC.

C. Mobilizing, monitoring and evaluating ECDC-related support

25. The most common approach used by ECDC participants to mobilize external support to ECDC projects and programmes is the conclusion of cooperation agreements with individual development partners or groups of development partners through the modality of periodic donor or consultative conferences and meetings. Both types of arrangement provide a channel through which ECDC participants can present their ECDC projects and programmes to donors and solicit their support. Furthermore, they also provide an opportunity for donors to play a part in the design, implementation and monitoring of activities in which they are associated.

26. In spite of the existence of these mechanisms and recent changes in procedures among some of the major development partners, problems continue to persist. Some of these problems are the result of differences in perceptions and priorities as seen from the standpoint of the donors and the recipients. Other problems include those relating to the ad hoc nature of regional support and to protracted negotiations and delays in obtaining approval and disbursement of assistance.

27. Moreover, among the ECDC recipients, there is a general lack of established mechanisms and institutional structures with the mandate to procure external assistance and enter into commitments on behalf of the group.

This legal and coordination issue becomes a particularly important problem in situations where there is a multiplicity of overlapping groupings as it raises the risk of duplication of effort, inter-ECDC participant suspicion and rivalry in seeking external support. 6/

D. Interfacing between ECDC support and national policies

28. To the maximum extent possible, external support to the ECDC process should take national policies and action into account in order to avoid working at cross purposes. Three aspects of this question deserve particular attention: specific sectoral problems; structural adjustment programmes, and the problem of incentives, especially in aid bearing on agriculture.

29. External support to regional and subregional activities should be interfaced with national trade policies, with exchange rate policies, with financial and credit regulations, and with the legal system governing banking, FDI and the operation of foreign firms in members of the groupings receiving this support. For example, support for a free trade zone or a joint production facility would require exemptions from trade barriers and equal treatment with national producers regarding the national content of the product. Similarly, FDI flowing to a regional cooperative grouping or an integration grouping should not be hampered by unequal treatment by regulations governing foreign ownership, or regulations regarding transfer of profits and free disposition of foreign exchange proceeds. In the same vein, the tax and regulatory structure of each country ought to be neutral among products of joint collaboration supported externally and competitive national products. In some instances, external support may have provisions tying development assistance and credit to procurement in the donor countries. Such provisions might not only run counter to intraregional import agreements but also work at cross purposes with bilateral aid.

30. Regarding structural adjustment programmes financed by multilateral organizations or funded by external donors, it is obvious that the regional perspective should bear upon their design, their targets as well as their sequencing. Examples of a growing awareness of this aspect can be cited from the IMF, the World Bank and the European Union. In the World Bank, the Africa Regional Bureau is reportedly involved in the structural adjustment loans to countries in southern and Eastern Africa. At meetings organized by the European Union in October 1991 and February 1992, in connection with the Special Programme of Assistance to the indebted sub-Saharan countries, the Union called for further studies on possible approaches to incorporate the regional dimension into structural adjustment. In its report entitled "Regional integration and structural adjustment", the Union identified a number of areas where regional integration and structural adjustment can reinforce each other.

31. A further manifestation of this policy is an initiative launched in 1991 by the African Development Bank, the European Union, IMF and the World Bank, to facilitate cross-border trade and investment among Eastern and Southern African countries members of the Preferential Trade Area for Eastern and Southern Africa (PTA), the Southern African Development Community (SADC) and the Indian Ocean Community (IOC) through regional cooperation in trade liberalization, improvement of payments and exchange systems, investment

promotion and institutional development. By targeting the interlinked areas of cross-border trade, investments and payments in a comprehensive approach, the initiative aims to increase such trade and investment and in the process contribute to enhancing and accelerating national structural adjustment measures and regional integration.

32. When structural adjustment programmes are designed for specific countries, the targets imposed on monetary expansion, taxes, tariffs, price regulations, and credit offered by the Central Banks, etc. ought to be harmonized with regional commitments. Furthermore, the sequencing of reforms, which typically starts with changes in macroeconomic policies and then continues with micro measures, ought to be coordinated with what is undertaken regionally or at the level of integration groupings. Unavoidably, there will be spill-over effects on other countries, for example, in imports, in tax collection at the border, in the incentives afforded by the tax structure and its effective rates and so on. In all such instances, specific measures to deal with spill-overs and specific measures of coordination ought to be grafted onto the structural programmes.

33. The impact of external support for ECDC may bear upon the structure of incentives and production decisions in members. In particular, this has been observed in the agricultural sector where aid in the form of subsidized agricultural commodities and food aid have had adverse effects on local producers and have on occasion undermined regional plans for achieving regional food security or for developing the agricultural capabilities of a member country to provide for the region. By the same token, assistance to regional efforts to set up production facilities must be subjected to the test of whether such production, in relation to other producers, is higher or lower cost. Failing that, external assistance might be expanded on trade substitution rather than trade creation.

III. A POLICY DIALOGUE ON REGIONAL SUPPORT

34. The experience so far of policy dialogue between the major development partners and ECDC participants suggests that a dialogue framework between donors and recipients can yield very useful results. The essential élements of such a dialogue may involve the question of aid objectives and modalities; coordination and streamlining of different sources and types of aid, organization of modalities for project-specific dialogue, for periodic meetings to discuss aid plans and needs and for establishing a reporting system and data base on support to ECDC. 7/

A. Donor-Recipient dialogue and coordination

35. At present, aid programmes and policies are built around the national needs of a recipient country. While bilateral aid will continue to dominate ODA flows and other forms of financial assistance, the regional dimension and, in general, external support for ECDC would seem to call for periodic meetings within a loose institutional framework between donors and recipients, such as regional actors and integration secretariats, in order to map out the contours of external support to ECDC, prioritize its objectives, and devise appropriate modalities for channelling, monitoring and evaluating this aid component and for sequencing its disbursement.

36. The EC has had such a dialogue with the Central American governments through the San José process; the donor community has an arrangement of this kind with SADC among other groupings and there is also the example of the global policy dialogue framework envisaged for Africa. The donor community also supports the research carried out by 13 regional agricultural research institutions through the Consultative Group on International Agricultural Research. These examples and models of successful collaboration between groupings of developing countries and their development partners provide useful pointers for structuring donor/recipient relationships in the context of support to ECDC.

37. It is obvious that such a dialogue would have to address the concern of donors regarding their total aid outlays and that of the recipients regarding their bilateral share in external aid. Only through such a dialogue would it be possible to arrive at mutually acceptable plans.

B. Streamlining and coordinating aid types and sources

38. Aside from a dialogue on aid to ECDC, its priorities, contours and sequencing, there is an operational need for coordination and streamlining among the various sources and types of aid. While the donors have their own institutional arrangements for coordination, it would be extremely helpful to factor the objectives and views of potential recipients into aid plans. External support to ECDC may take a variety of forms; grants, advice and technical expertise, technical assistance projects, training and manpower assistance. It also comes from a variety of sources in donor countries and their institutions, and in multilateral funding institutions. One of the desirable outcomes of this aspect of the partnership dialogues is to review the entire spectrum of these efforts and examine the extent of their consistency and coverage. In this context it might be useful to determine whether there is merit in some functional specialization among various agencies in a way that would better fit their comparative expertise, past experience and established relations with recipients.

39. In this context, external support to ECDC entities might also include loans. In particular, this question might arise in relation to multilateral funding institutions. There are at present legal problems to such lending. The IGGE might wish to look into the conditions under which such lending might become both permissable and viable.

C. How can the international community enhance external support to ECDC?

40. While the need for such support and perhaps the willingness of donors to consider specific action in this respect are beyond doubt, the IGGE might wish to consider the following steps:

(i) Provision for group-specific donor-recipient meetings at the request of ECDC participants and entities to decide on areas and specific projects suitable for external support;

(ii) Establishment of a common reporting system on standardized norms to monitor and exchange information on ECDC external support, and to create by UNCTAD, in cooperation with other institutions, a data base to facilitate the reporting and dissemination of information on ECDC external support;

(iii) The IGGE is expected to play a central and catalytic role in defining the future donor-recipient relations on ECDC and its support. It is hoped that past experience and the new thinking on this matter will lead to the establishment of the most suitable framework, guidelines and modalities for fruitful cooperation in the future. To that end, the IGGE might consider making appropriate recommendations to the Standing Committee on ECDC in order to assist it, in accordance with its terms of reference, in identifying "the areas, including new ones, in which international organizations, and member States, on a voluntary basis, through measures of support can facilitate specific economic cooperation programmes and projects and thereby complement the efforts of developing countries to strengthen South-South trade and economic relations." 8/

Notes

1/ For some examples of this trend see UNCTAD TD/B/CN.3/GE.1/3.

2/ Ibid.

3/ For details, see UNCTAD, "Review and analysis of the development objectives and external assistance requirements of ECDC participants" (TD/B/CN./GE.1/2), April 1994.

4/ See UNCTAD TD/B/CN.3/GE.1/3.

5/ It is worth noting in this context that the emergence of trading blocs involving both developed donor countries and developing countries opens up possibilities for ECDC support within such mixed groupings.

6/ Based on information supplied by groupings themselves. See TD/B/CN.3/GE.1/2.

7/ See TD/B/CN.3/GE.1/2, chap. II.

8/ See Report of the Trade and Development Board on its thirty-eighth session. Second part, Official Records, Supplement No. 1A (Part II) (TD/B/1323 (Vol. II), part I, annex, B). Terms of reference of the Standing Committees. Standing Committee on Economic Cooperation Among Developing Countries.